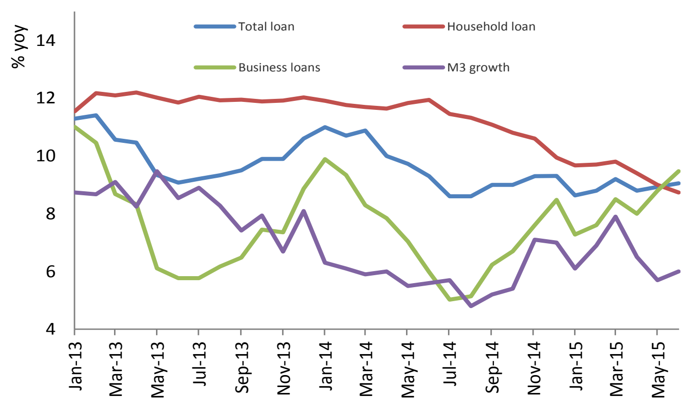
Economic Insight

2015/75 | 3 August 2015 Amanah Mutual Berhad

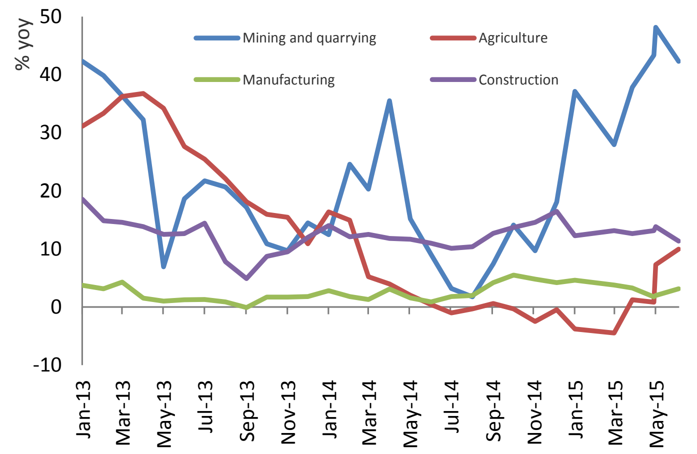
Malaysia: Businesses anchoring credit growth for the third straight month

CHART 1: LOANS OUTSTANDING AND BROAD MONEY SUPPLY (M3) GROWTH



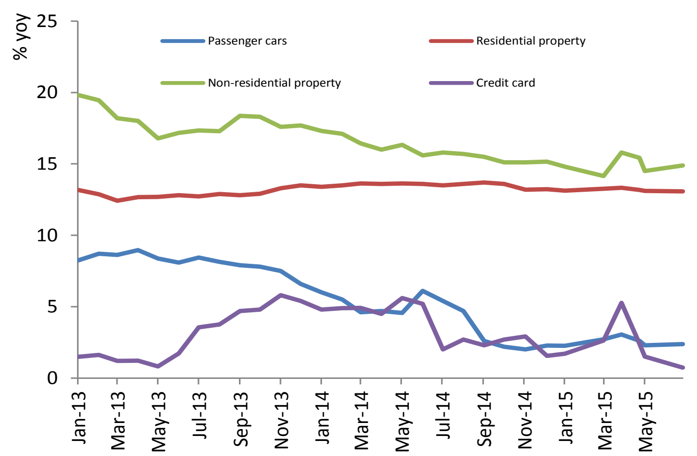
Source: Bank Negara Malaysia

CHART 2: LOANS OUTSTANDING BY SECTOR



Source: Bank Negara Malaysia

CHART 3: LOANS OUTSTANDING BY PURPOSES



- Economic activity in June was largely sustained on the back of a faster broad money supply (M3) growth of 6.0% from 5.7% in May and 6.5% in April. M1 growth, which is made up by currency in circulation and demand deposits, continued to accelerate in June at 9.5% (May: 8.7%, April: 8.1%) in lieu of the preparation for the fasting month and Hari Raya festivities ahead.

- Overall, the growth in outstanding loans in June quickened to 9% yoy from May's 8.9% and April's 8.8% yoy, thanks to the faster business loans growth at 9.5% yoy (May: 8.8%, April: 8%).

- Overall, business loans growth in June had improved from May's data as most key business segments grew on a yoy basis during the month (except only the electricity, gas, & water segment). Construction and real estate segments have been expanding by double-digits for more than one and a half years and thus we expect these segments to continue enjoying strong growth numbers given a slew of infrastructure projects in progress (building of MRT, LRT extension, and highways amongst others) as Malaysia embarks on becoming a high income nation by 2020.

- As largely expected, outstanding household loans moderated for the third consecutive month to 8.7% yoy in June (May:9%, April: 9.4%). We anticipate this segment to remain moderate as the 6-month moving average growth for loans applied in this segment continued to decline twelve months in a row. We also saw a downward trend in loans applied for hire purchase and residential property.

- Bank lending has been on a moderating trend since the beginning of last year. This could be attributed to measures implemented by BNM in curbing the escalating household indebtedness—one of the factors that investors consider when judging the sustainability of Malaysia's economy. Nevertheless, the higher level of household financial assets (a measure we think is often being overlooked and under-reported) at 188.1% of GDP vs household debt 87.9% of GDP in 2014 would provide households with comfortable buffers and ample flexibility to maneuver around unexpected financial barriers.

- While the second half of 2015 would continue to remain a challenge, external risks are looking quite contained at the moment. For example, the risk of Grexit has diminished for the time being, while July's European Commission's economic sentiment indicator points to a sustained Eurozone economic recovery. Meanwhile, despite China's moderating growth as it undergoes economic restructuring, we expect exports to still benefit from the increasingly upbeat economic data from the United States and theoretically from the weaker ringgit.

- Despite the concern arising from the weakening ringgit trend, import price index in June only rose by 0.6% yoy and 0.4% mom, suggesting that imported inflation is largely contained for now.

- As such, we project the Overnight Policy Rate (OPR) to be maintained at 3.25% throughout the remaining of 2015. We maintain our loans growth forecast of 7.2% for 2015 versus 9.3% realised in 2014.